B5350-2 1/17/84

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 16, 1984 VOLUME XXI, NUMBER 2

Depressed Food Prices . . .

One of the more surprising but certainly most welcome developments accompanying the economic recovery has been the low rate of inflation. Retail prices advanced only 3.2 percent during the year ending November, 1983—an accomplishment, considering the robust pace of business expansion during this time period. Among the many contributors was a 0.6 percent decline in energy prices, a rise of only 2.6 percent in the cost of housing, thanks to lower interest rates, an increase in medical costs of 6.6 percent, after nearly four years of double-digit advances, and a 3.9 percent rise in the cost of entertainment—one of the lowest in ten years.

But the most important factor affecting day-to-day household budgets was the modest rise in the cost of food. Since one fifth of consumer spending is for food and beverages, the fact that prices at the nation's supermarkets rose only 1.1 percent in the year ending November, 1983, is particularly good news. This occurred on top of a 2.6 percent rise in the previous 12-month period, making this two-year increase the smallest in more than a decade.

. . . Hurt Farm Incomes . . .

While this has eased the pressures on consumers' wallets, it has not been so good for the nation's farmers. Indications are that their net incomes fell in 1983 for the second year in a row. To Washington's surprise, fewer farmers than anticipated decided to take possession of their payment-in-kind (PIK) commodities—valued at about $8.7 billion—in 1983. It is estimated that only 25 percent of the grain was redeemed in 1983 with the rest to be taken in the first half of 1984. Originally, the Department of Agriculture expected the split between 1983 and 1984 to be about equal.

Other contributors to the dismal 1983 profit picture were a sharp decline in overseas demand, partially the result of the high value of the U.S. dollar in relation to other major currencies, and sluggish domestic demand. However, by the end of the year the rise in prices farmers received for their commodities outpaced the increase in the cost of operations—a result of the dramatic decline in plantings. It is the first time this has happened in five years.

. . . Dampening Machinery Sales . . .

This has dampened the hopes of farm machinery manufacturers and dealers. They thought that farmers, newly flush with cash from the sales of PIK grains, would be crowding their showrooms, buying new equipment in anticipation of next year's planned increases in grain production. So far the only encouragement has come from sales of large tractors. In October, which is traditionally the busiest month of the year, farmers purchased 26 percent more tractors than a year ago and in November they bought three percent more than in the same month of 1982. But for the first 11 months of 1983, tractor sales ran 8.9 percent below those in the comparable period a year ago. On the other hand, sales of combines showed no improvement at yearend. In the January to November period they were 17 percent lower than during the same period in 1982, falling by an average of nearly 30 percent, year-over-year, in October and November.

Farmers apparently prefer paying off old debts rather than acquiring new, often purchasing used equipment when possible. Many of them still carry dangerously large debt burdens acquired at lofty rates of interest as a result of overambitious borrowing in the late 1970s. At that time, commodities' prices and land values were rising rapidly—making it a seemingly good bet that returns would exceed borrowing costs. Unfortunately, over the last two years, the value of both commodities and land has plunged.

The Farm Credit Administration reports that borrower bankruptcies and loan liquidations under its programs increased dramatically in 1983 compared with the previous two years. About one percent of Federal Land Bank loans outstanding were under liquidation in the third quarter of 1983 compared with an average of .27 percent in 1981. Similarly, about 2.6 percent of short- and intermediate-term loans extended by Production

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Credit Associations were delinquent in the third quarter—a rate nearly five times 1981's average.

. . . But A Change Is Likely

However, the picture improved in the fourth quarter, portending that farm income may be headed higher. Prices that farmers received for their products rose more than four percent in the last two months of the year, while the prices they paid for production expenses remained unchanged. As a result, the ratio of prices received to prices paid rose in December to 86 (1977=100), its second highest level in 16 months. Nevertheless, for the year as a whole, the parity ratio appears to have fallen to its lowest level on record. What is more, in the first half of this year, farmers' incomes will be sharply boosted by stepped-up receipts of grain under the PIK program deferred from 1983.

These higher agricultural commodity prices will soon be apparent at supermarket checkout counters. To be sure, most of the increase expected to take place in 1984 will come as a result of the PIK program, last summer's drought and December's cold spell. Meat prices will probably be the fastest rising component of household food budgets. The high cost of feed grains and heat-related weight losses have forced ranchers to send more animals to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/4/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	162.475	+ 2.332	+14.689
Loans to Depository Inst.	1.297	+ .540	+ .099
Float	2.113	– 1.497	– .851
Total Reserve Bank Credit	174.845	+ 1.857	+12.342
Treasury Deposits with Federal Reserve Banks	3.436	– .293	– .752
Currency Outside Banks	152.335	+ .793	+13.872
Member Bank Reserves:			
Required	39.179	+ .639	– 2.181
Excess (Deficiency)	.945	+ .469	– .048
Total Reserves Held	40.124	+ 1.108	– 2.229
Net Borrowed Reserves	.274	+ .111	+ .249
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.186	+ 1.340	+ 7.989

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	522.0	+ 3.4‡	+ 9.0‡
M2 (December '83)	2,184.7	+ 11.5	+ 8.7
M3 (December '83)	2,599.7	+ 8.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 1/13/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	8.95%
* Federal Agencies	9.00	9.40	9.85
* Project Notes–Taxfree (46% Taxable Equivalent)	9.54	9.81	10.28
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.32	9.48	10.00

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.15%	Feb.	9.20%
15- 29 days	9.15	Mar.	9.20
30- 59 days	9.15	Apr.	9.20
60- 89 days	9.15	May	9.20
90-179 days	9.15	Jun.	9.20
180-239 days	9.00	Jul.	9.15
240-270 days	9.00		

‡Industrial Paper–Prime			
30- 89 days	9.13%	†Federal Funds Effective Rate	9.35%
90-120 days	9.13		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,362	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,553	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.6	9.7	– 1.0
Change in Consumer Prices (new series)*	Nov '83	3.6%	4.8%	0.0%
Change in Producer Prices*	Dec '83n	2.4%	– 2.4%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '83	102,941	102,606	98,979r
Unemployment as % of Civilian Labor Force†	Dec '83	8.2%	8.4%	10.7%r
Personal Income*	Nov '83	$ 2,832	$ 2,812	$ 2,633
Leading Indicators Composite Index (1967=100)†	Nov '83	161.8	162.4	139.4
Industrial Production Index (1967=100) †	Dec '83n	156.9	156.1r	135.2
Net Change in Consumer Installment Credit †	Nov '83n	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Nov '83	–$ 7.40	–$ 8.97	–$ 3.89
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Nov '83	1,756	1,650	1,361
New Construction Expenditures*	Nov '83	$ 271.9	$ 271.9	$ 243.7
Total Business Inventories †	Oct '83	$ 516.1	$ 513.9	$ 519.8
Total Business Sales †	Oct '83	$ 382.1	$ 380.6	$ 336.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

slaughter, trying to reduce cattle and hog inventories.

The number of cattle and calves on feed in the seven major beef-producing states stood six percent lower on December 1 than on the same date one year ago. The inventory of hogs for slaughter was still above 1982's level on December 1, but it was three percent below the June 1 inventory, reflecting heavy slaughtering in recent months. This means that fewer hogs and cattle will be available for slaughter this spring and summer, portending rising beef and pork prices.

In addition, last month's cold weather damaged pastures further and stressed livestock—setting back cattle and hog weights. The National Weather Service says that the week ending on December 26 was one of the coldest in the history of weather records. Parts of Montana reported average temperatures as much as 45 degrees below normal, and it was 36 degrees colder than normal in most of the Central Plains. Freezing weather reached into the Texas citrus area and then moved over the Florida citrus area where, according to latest estimates, it damaged nearly one quarter of the state's orange crop. The extreme cold damaged winter wheat in areas where snow cover was not sufficient to protect it. Prices of vegetables have already inched up on the heels of extensive damage in the South.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/28/83)	91,918	+ 1,996	–40,671
New York City (12/28/83)	19,001	+ 480	–16,611
Commercial Paper (12/28/83)	182,940	– 398	+16,418

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)	222,209	+ 2,551	+ 4,789
New York City (12/28/83)	58,793	+ 825	– 1,957

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)	534,228	+ 4,215	+25,788
New York City (12/28/83)	122,148	– 330	+ 2,663

Financial Markets

	Friday 1/13/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.05%	– .05	+ 1.30
180-Day Bills†	9.37	– .13	+ 1.42
Longest Bills†	9.67	– .23	+ 1.42
Recent Issues:			
10⅞s 12/31/85	10.45	– .20	
11¼s 12/31/87	11.05	– .15	
11¾s 11/15/93	11.55	– .15	
12s 8/15/13	11.65	– .10	
Municipals:			
Bond Buyer–20 Bond Index* (1/12/84)	9.67%	+ .01	+ .30
Blue List Total ($ Million)	$1,144	+ $ 38	+ $ 187
30-Day Visible Supply ($ Million)	$2,456	– $ 21	+ $ 830
Total	$3,600	+ $ 17	+ $1,017
Corporates:			
Moody's Aa Composite (1/12/84)	12.71%	– .06	+ .44
30-Day Visible Supply ($ Million)	$ 600	– $420	+ $ 320
Stocks:			
Dow-Jones Averages:			
Industrials	1,270.10	– 16.65	+ 189.25
Transportation	602.96	– 8.83	+ 135.28
Utilities	134.30	– .53	+ 9.67
65 Stocks	507.76	– 6.28	+ 83.42
Standard and Poor's 500 Stocks	167.02	– 2.26	+ 20.37
N.Y.S.E. Composite Index	96.66	– 1.05	+ 11.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	103,444	–17,189	+ 8,632

* 46% Taxable equivalent 17.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/13/84	Week Ago
Overnight	9.25%	9.44%
1 month	9.56	9.56
3 month	9.75	9.81
6 month	9.88	10.00
1 year	10.38	10.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/13/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01731	57.78
Canada	.8001	1.2498
Denmark	.09759	10.2470
France	.1154	8.6665
Germany	.3530	2.8332
Italy	.0005829	1715.50
Japan	.004263	234.55
Mexico	.006098	164.00
Netherlands	.3142	3.1830
Switzerland	.4454	2.2450
U.K.	1.4005	.7140

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